

Message Text

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R 201500Z JUL 77

FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 2842
INFO AMCONSUL SAO PAULO
AMCONSUL RIO DE JANEIRO

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E.O. 11652: N/A

TAGS: BEXP, BR

SUBJ: MEETING OF COUNTRY COMMERCIAL ACTION GROUP

REF: (A) BRASILIA 3446 (B) STATE 113050

FOLLOWING MESSAGE PREPARED BY AMCONSUL SAO PAULO:

1. A MEETING OF THE COUNTRY COMMERCIAL ACTION GROUP (CCAG) FOR BRAZIL WAS HELD IN BRASILIA ON JULY 14 UNDER THE CHAIRMANSHIP OF THE CHARGE D'AFFAIRES. IN ADDITION TO THE COMMERCIAL COUNSELOR AND OTHER EMBASSY OFFICERS, THE MEETING WAS ATTENDED BY THE CHIEF OF THE ECON/COMMERCIAL SECTION IN RIO DE JANEIRO AND THE ACTING CHIEF OF THE ECON/COMMERCIAL SECTION IN SAO PAULO.

2. GOB IMPORT POLICY

MR. GORDON JONES, OF AMCONGEN, RIO DE JANEIRO, LED A DISCUSSION OF GOB IMPORT POLICY. HE POINTED OUT THAT WHILE THE PRIOR DEPOSIT REQUIREMENT FOR IMPORTS HAD THE INITIAL DEFLATIONARY EFFECT OF SOAKING UP LIQUIDITY, THAT EFFECT IS NO LONGER IMPORTANT SINCE NEW DEPOSITS ARE LARGELY FINANCED BY THE REFUNDS OF OLD DEPOSITS. AS THE COST OF FINANCING THE DEPOSIT IS PASSED ON TO THE CONSUMER, THE MOST IMPORTANT EFFECT OF THE DEPOSIT TODAY IS INFLATIONARY.
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THE IMPORT DEPOSIT WAS RECENTLY TIGHTENED BY ELIMINATING THE EX-EMPTION FOR GOODS FINANCED BY FOREIGN CREDITS OF FIVE YEARS OR MORE (UNLESS THE GOODS WERE IMPORTED FOR A PROJECT APPROVED BY CDI - THE INDUSTRIAL DEVELOPMENT COUNCIL). ON THE OTHER HAND, THERE WAS A RELAXATION IN THE RECENT DROPPING OF THE IMPORT DEPOSIT FOR CAPITAL GOODS IMPORTED BY GOB AGENCIES. OTHER RECENT DEVELOPMENTS IN THE IMPORT POLICY AREA ARE THE INCREASING EMPHASIS GIVEN

TO CACEX PARTICIPATION AGREEMENTS AND TO IMPORT/EXPORT BUDGETS FOR INDIVIDUAL COMPANIES, EVEN THOSE NOT APPLYING FOR GOB BENEFITS UNDER THE BEFIEX PROGRAM. THE PARTICIPATION AGREEMENTS INVOLVE A DIVISION OF THE SUPPLY OF EQUIPMENT FOR A GIVEN PROJECT BETWEEN A BRAZILIAN AND A FOREIGN FIRM, AND, IF APPROVED BY CACEX, INVOLVE A COMMITMENT TO ISSUE IMPORT LICENSES FOR THE FOREIGN EQUIPMENT COVERED BY THE AGREEMENT.

3. US INVESTMENT IN BRAZIL

MR. EDWARD KELSCH, OF THE AMCONGEN IN SAO PAULO, FOLLOWED WITH A REPORT ON CURRENT U.S. BUSINESS ATTITUDES TOWARDS INVESTING IN BRAZIL. HE CLASSIFIED CURRENT U.S. INVESTMENT BEHAVIOR IN BRAZIL AS BEING UNCERTAIN. WHILE GROWTH RATES AND RETURNS FROM INVESTMENTS ARE SATISFACTORY FOR MOST U.S. FIRMS (THOUGH BELOW PREVIOUS LEVELS), AMERICAN BUSSINESSMEN ARE NERVOUS ABOUT CONTINUING HIGH INFLATION RATES, THE STATE OF CONFUSION AMONG THE NATIONAL LEADERSHIP, CHANGEING ATTITUDES TOWARDS MULTI-NATIONAL CORPORATIONS, STUDENT DEMONSTRATIONS, AND U.S. - BRAZILIAN RELATIONS. STILL, INFLOWS OF DIRECT FOREIGN INVESTMENT INTO BRAZIL IN 1977 SHOULD EQUAL THAT OF LAST YEAR (U.S. \$1.0 - 1.2 BILLION) FOR THREE REASONS. FIRST, U.S. FIRMS ARE INVESTING IN BRAZIL IN ORDER TO MAINTAIN MARKET SHARE AND ESTALBISH A BASE FOR LONG-TERM GROWTH. SECOND, STABILITY CONDITIONS FOR INVESTMENT IN BRAZIL ARE STILL AMONG THE BEST IN THE WORLD AND, GIVEN CURRENT CORPORATE KIQUIDITY LEVELS, FIRMS MUST INVEST SOMEWHERE. FINALLY, IMPORT UNCLASSIFIED

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RESTRICTINS HAVE REDUCED FIRMS' ABILITY TO SERVICE THE BRAZILIAN MARKET VIA IMPORTS AND, THUS, HAVE INDUCED MANY FIRMS TO ESTABLISH MANUFACTURING OPERATIONS.

4. 1977 CCP

THE CCAG REVIEWED PROGRESS UNDER THE 1977 CCP. WITH RESPECT TO PROCESS CONTROL INSTRUMENTATION AND BIO-CHEMICAL EQUIPMENT, IT WAS NOTED THAT THE TRADE OP CALLS HAD BEEN MADE BUT THAT FURTHER CONTACTS WITH END-USERS WOULD BE MORE PRODUCTIVE IF TIMED CLOSER TO THE TRADE CENTER SHOWS SCHEDULED FOR THOSE PRODUCT CATEGORIES IN SEPTEMBER 1977 AND MARCH 1978, RESPECTIVELY. THE CCAG NOTED THAT ALL THE ACTIONS SPECIFIED FOR THE THIRD PETROCHEMICAL POLE HAD BEEN TAKEN EXCEPT THOSE RELATED TO SUPPORT OF THE TRADE CENTER EVENT ON PLASTICS PRODUCTION EQUIPMENT ORIGINALLY SCHEDULED FOR APRIL 1978. IF THIS EVENT IN RESCHEDULED FOR FY 1979, THE SUPPORT ACTIVITIES SHOULD BE INCLUDED IN THE 1979 CCP.

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THE CCAG NOOED THAT THE AGRIBUSINESS CAMPAIGN WAS BASED IN PART ON THE HIGH PRIORITY WHICH THE GOB HAD ANNOUNCED WOULD BE GIVEN TO AGRIBUSINESS IN 1977, BUT THAT, IN FACT, THE GOB HAS ASSIGNED AGRICULTURE A RELATIVELY LOW PRIORITY.

A RECENT LETTER RECEIVED BY THE EMBASSY FROM THE AGRIBUSINESS COUNCIL WAS CALLED TO THE ATTENTION OF THE MEMBERS OF THE GROUP, WHO WERE URGED TO BE ALERT TO ANY INDICATION OF INTEREST ON THE PART OF THE BRAZILIAN FEDERAL OR STATE OFFICIALS IN THE TYPE OF COOPERATION THE COUNCIL CAN PROVIDE. THE CCAG NOTED THAT, ALTHOUGH THERE IS LITTLE POSSIBLITY OF SELLING AGRICULTURAL MACHINERY TO BRAZIL, WE HAVE GIVEN HIGH PRIORITY IN THE FY 1978 CCP TO FOOD PROCESSING AND PACKAGING EQUIPMENT, WHICH IS INCLQDED IN THE AGRI-BUSINESS EQUIPMENT CATEGORY ON THE USDOC TARGETHINDUSTRIES LIST.

WITH RESPECT TO TRAVEL PROMOTION, THE COMMERCIAL COUNSELOR REPORTED THAT HE HAD BEEN IN TOUCH WITH MR. RAUSCHENPLAT, PANAM, RIO DE JANEIRO, WHO IS THE CHAIRMAN OF THE SELCTION COMMVTTEE FOR BRAZIL FOR THE USTS DISCOVER AMERICAN TRAVEL MART BEING HYLD IN ST. LOUIS IN SEPTEMBER 1977. USTS HAS GIVEN BRAZIL A QUOTA OF 9 TRAVEL AGENTS AND 2 TRAVEL JOURNALISTS TO ATTEND THAT EVENT. WITH RESPECT TO THY PROMOTION OF STUDENT TRAVEL, THE USIS REPRESENTATIVE REPORTED THAT THE PORTUGUESE LANGAUGE BOOKLET PROMOTING STUDY IN THE US HAD BEEN UPDATED AND REPRINTED. IN CONNECTION WITH THE MONITORING OF THE CDI
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INVESTMENT APPROVAL LIST TO UNCOVER EXPORT OPPORTUNITIES, THE RIO REPRESENTATIVE POINTED OUT THAT BY THE TIME CDI APPROVALS ARE GRANTED ALL ARRANGEMENTS FOR THE PROCUREMENT OF FOREIGN GOODS HAVE BENN COMPLETED. IT IS NECESSARY TO ATTEMPT HO LEARN OF THE PROPOSED

INVESTMENTS AT AN EARLIER STAGE - NO LATER THAN THE "CARTA CONSULTA" STAGE. THIS IS DIFFICULT, HOWEVER, BECAUSE CDI IS ELUCTANT TO GIVE OUT INFORMATION BEFORE IT HAS TAKEN FORMAL ACTION ON A PROPOSED INVESTMENT.

WITH RESPECT TO THE PROPOSED ESTABLISHMENT OF A BRAZILIAN CHAPTER OF THE INSTRUMENT SOCIETY OF AMERICA, THE CCAG NOTED THAT AMCONGEN SAO PAULO HAD BEEN IN CORRESPONDENCE WITH THE SOCIETY AND WAS AWAITING INFORMATION FROM THE SOCIETY THAT COULD BE USED IN PROMOTING THE ESTABLISHMENT OF A CHAPTER IN BRAZIL.
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